

## **Assessing payment adequacy and updating payments for physician services**

**ISSUE:** In the March 2003 report, MedPAC will address three issues concerning Medicare's payments for physician services: Are current payments adequate? How are costs expected to change in 2004? What is an appropriate payment update?

**KEY POINTS:** The available information presents a mixed picture on payment adequacy:

- According to MedPAC's 2002 survey of physicians, the percentage of physicians accepting at least some new Medicare patients is about the same as it was in 1999, but the percentage accepting all new Medicare patients is lower.
- Preliminary results from research sponsored by MedPAC show that the difference between Medicare and private sector payment rates had narrowed in 2000 and 2001, with Medicare's rates at about 80-85 percent of private rates. Since then, the difference has started to widen again. Still, the difference between Medicare and private rates in 2002 is about where it was in 1999 and is not as great as it was in 1994, when Medicare's rates were only about 66 percent of private rates.
- Other information—on entry and exit of providers and growth in the volume of services—suggests that payments were at least adequate in 2001.

For 2004, the expected change in input prices for physician services is 3.4 percent. MedPAC's standard for growth in multifactor productivity is 0.9 percent.

**ACTION:** At this meeting, the Commission will discuss whether the current level of payments is adequate and what the appropriate update should be.

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## **Assessing payment adequacy and updating payments for outpatient dialysis services**

**ISSUE:** Do we believe that Medicare's payments for all services provided by outpatient dialysis facilities are adequate? What would be needed to account for anticipated increases in efficient providers' costs next year?

**KEY POINTS:** At this meeting, staff will present information about the adequacy of current aggregate outpatient dialysis payments. We will assess payment adequacy by considering dialysis services and separately billable medications because both are important sources of payments and costs for dialysis providers. Information about market factors show that:

- Providers' capacity to furnish dialysis services has steadily increased between 1993-2001.
- The use of separately billable drugs administered during dialysis has increased throughout the 1990s and payments for these services represented about 40 percent of Medicare's total payments to dialysis facilities in 2001.
- Beneficiaries appear to be obtaining access to needed dialysis services. Quality of dialysis care, as measured by dialysis adequacy and patients' anemia status, continues to improve.

**ACTION:** Commissioners should discuss the findings presented in the attached briefing materials. Specifically, Commissioners should discuss whether: 1) current base payment rates are adequate, and 2) whether the composite rate should be updated for 2004. The Commission's recommendation about updating payments for dialysis services will be included in the March 2002 report.

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## **Payment for ambulatory surgical center services**

**ISSUE:** For the first time, MedPAC will be recommending to the Congress a payment update for the coming year for ambulatory surgical center (ASC) services. This recommendation will be based on the adequacy of Medicare's current ASC payments and expected changes in ASC costs in the coming year.

### **KEY POINTS:**

- Under current law, ASC rates will be updated for FY 2004 using the consumer price index for all urban consumers.
- Because current data on ASCs' costs are not available, the Commission will use information on various market factors—such as access to capital, entry and exit of providers, and changes in the volume of services—in evaluating the adequacy of Medicare's current ASC payment rates.
- The Commission will base its estimate of the change in ASC costs in the coming year on estimates of input price inflation, scientific and technological advances, and productivity growth.
- There has been rapid growth in the number of Medicare-certified ASCs, which increased by almost 50 percent between 1996 and 2001.
- The volume of procedures performed in ASCs grew by over 60 percent from 1997 to 2001.
- Accelerating growth in the number of ASCs, the expansion of for-profit chains, and favorable investment ratings imply that ASCs have strong access to capital.

**ACTION:** We are seeking Commissioners' comments on our payment adequacy assessment and draft update recommendation, so we can return with revised versions for the Commission to vote on at the January meeting.

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